Cornerstone Strategic Index Managed Portfolios

Portfolio changes

February 2024

In this note, we provide an update on recent trade activity and changes to the **Cornerstone Strategic Index Conservative Managed Portfolio**, the **Cornerstone Strategic Index Balanced Managed Portfolio**, the **Cornerstone Strategic Index Balanced Growth Managed Portfolio**, the **Cornerstone Strategic Index Growth Managed Portfolio** and the **Cornerstone Strategic Index High Growth Managed Portfolio** (Portfolios).

Summary of key changes

- Rebalanced the direct Australian equity portfolio.
- Increased portfolio allocation to cash.
- Reduced portfolio allocation to Australian listed property (*Conservative and Balanced only*).

Direct Australian equity portfolio

The direct Australian equity portfolio is rebalanced semi-annually. The purpose of rebalancing is to ensure the portfolio's holdings are in line with the underlying investment strategy. We do this by buying and/or selling shares.

As part of this latest rebalancing, we bought into the real estate, healthcare and communication services sectors, and sold out of financials, energy and utilities. In terms of factor exposure, the portfolio is positioned with overweights to low volatility, quality, momentum and value while being underweight growth.

Portfolio rebalancing trades

	COMPANY	WEIGHT (%)
Shares purchased	Cleanaway Waste Management	+1.8
	Bendigo & Adelaide Bank	+1.7
	Newmont	+1.5
	Ansell	+1.5
	Origin Energy	+1.5
	Fisher & Paykel Healthcare	+1.5
	Ampol	+1.5
	Seven Group Holdings	+1.5
	Incitec Pivot	+1.5
Shares sold	Cochlear	-2.6
	Brambles	-2.3
	Car Group	-2.1
	South32	-1.9
	Computershare	-1.5
	Sonic Healthcare	-1.4
	Dexus	-1.4
	Mineral Resources	-1.3

Cash

We increased the Portfolios' allocation to cash to provide additional defensive exposure should global and domestic growth slow as expected. Cash currently offers a relatively attractive yield.

Australian listed property (*Conservative and Balanced only*)

We had increased our exposure to listed property midway through 2023. At the time, we believed listed property had become oversold and thus offered attractive value. We also felt market expectations of a downturn within the sector were overdone; a view that paid off as listed property performed well through the second half of last year and into 2024. Reducing exposure to the sector allows us to take some profits off the table while further reducing overall portfolio risk.

From here, we will likely maintain portfolio positioning via rebalances as the tension between slower growth and easing inflation continues.

Changes in asset allocation (%)

ASSET CLASS	RISK PROFILE				
	CONSERVATIVE	BALANCED	BALANCED GROWTH	GROWTH	HIGH GROWTH
Australian equities (Reduced)	-0.8	-0.9	-1.0	-1.8	-0.6
Australian listed property (Reduced)	-0.2	-0.2	-	-	-
Cash (Added)	+1.0	+1.1	+1.0	+1.8	+0.6

Final asset class after these changes (%)[1]

ASSET CLASS	RISK PROFILE				
	CONSERVATIVE	BALANCED	BALANCED GROWTH	GROWTH	HIGH GROWTH
GROWTH ASSETS	**31.59**	**51.69**	**71.76**	**88.65**	**97.51**
Australian equity	11.99	20.99	30.94	36.46	42.75
Global equity	14.28	24.9	33.32	46.2	43.02
Australian property	2.40	2.35	3.54	2.57	3.54
Global property	1.96	2.49	2.97	3.42	3.92
Infrastructure	0.00	0.00	0.00	0.00	4.28
Growth alternatives	0.00	0.00	0.00	0.00	0.00
Extended credit	0.96	0.96	0.99	0.00	0.00
DEFENSIVE ASSETS	**68.41**	**48.31**	**28.24**	**11.35**	**2.49**
Loans & absolute return credit	0.00	0.00	0.00	0.00	0.00
Australian fixed income	33.26	23.12	12.54	2.64	0.00
Global fixed income	16.30	14.05	7.62	2.51	0.00
Defensive alternatives	3.80	2.00	1.90	0.90	0.00
Short-term credit	11.60	8.40	4.90	1.90	0.00
Cash	14.40	9.30	7.10	8.10	2.20

[1] ^ Asset class breakdown is based on the model and may vary slightly depending on the Platform.

Effective date

These changes were completed between **2 February and 8 February 2024**[2].

Looking ahead

Growth in most major economies is slowing down and most central banks appear to have finished raising interest rates. However, there is still a risk of further rate hikes if inflation fails to cool as expected.

Whilst economic data in the US has so far proven more resilient than markets initially expected, we believe the risk of a recession in the world's biggest economy over the next 12 to 18 months remains elevated. Elsewhere, the euro-zone is experiencing a decline in bank lending, persistent inflation in the UK has forced the Bank of England to lift interest rates despite a lack of growth, and China's economy continues to face challenges following a post-pandemic lockdown surge. Japan remains the notable outlier. Interest rates in Japan are still very low, while growth in the country is likely to remain above trend.

If equity markets continue to rally, we may continue to trim risk assets and increase defensive assets. Opportunities may also arise if markets react more negatively to potential recession outcomes.

Moving forward, it's important to remember that whilst we cannot control what markets do, we can control how we react to them. The Portfolios have been constructed to respond to changing market dynamics in real time, to effectively manage risk and to take advantage of market opportunities as they arise.

Moreover, we are committed to achieving long-term outperformance for investors and remain both patient and alert for any investment opportunities.

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[2] Actual trade dates may vary between platforms.

For more information please visit our website:

russellinvestments.com.au/cornerstone or

contact your Invest Blue representative: 1300 346 837

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